

Losing Touch With the World

Most of Asia is coalescing around China. In fact, an Asian [trade] bloc could be forming, with the United States on the outside.

By Jeffrey E. Garten

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May 24 issue - Along with the rising human, financial and political costs of occupying Iraq, the United States will soon be paying the price of neglecting other parts of the world. The most important case is Asia, where America is on the verge of going AWOL—absent without leave. This is particularly true when it comes to the economic issues that are of such great concern to the region.

This is no small matter. It will be Asia that sends into the global economy hundreds of millions of young workers who will change patterns of international production and trade. It will be Asia's central banks, which now account for more than half the foreign-owned U.S. Treasury obligations, that will play a critical role in global financial stability. It will be Asia's voracious appetite for oil that will change the geopolitics and economics of our energy future. It will be new research centers in places like Shanghai and Bangalore that will help propel tomorrow's technological advances.

As the Organization for Economic Cooperation and Development pointed out a few days ago, only the United States and Asia are propelling global growth. This has implications for U.S. policies toward Asia's major economies. For example, when the United States doesn't give enough attention to engaging Chinese officials on global economic matters, it misses the opportunity to build a partnership with the country that has become one of the twin engines of the global economy. After all, China now produces 20 times the steel output of the EU and has become the second largest consumer of oil, after the United States. It is on track, in this decade no less, to exceed the GDP of Germany and to become the third largest economy in the world, behind the United States and Japan.

A deficit of American attention to Asia's other giants is likely also to mean less influence on their policies now, and more trade and investment problems with them down the road. This is certainly the case with Japan, where GDP growth is stronger than at any time since the late 1980s. It's true, too, for India, where economic liberalization is paying off with exceptional growth rates (although last week's elections, which the ruling party quite shockingly lost, show that much more has to be done for the rural poor).

Much of Asia is coalescing around China, which last year accounted for one third of the growth of exports of Japan and South Korea and two thirds of the growth of Taiwan's. These trade patterns will be reinforced by Chinese efforts to create an Asian free-trade zone. In fact, an Asian bloc could be forming, with the United States on the outside.

America's challenges within the region may not be totally new, but they could easily get worse. China and Japan have been holding down the value of their currencies for reasons that make sense to them but not to the United States. Throughout Asia, national-growth models are too dependent on exports and not enough on internal growth, creating large trade surpluses there and large deficits in America. Protection of intellectual-property rights has been a chronic problem that in the digital age is sure to grow.

To be sure, the Bush administration has subordinated just about all of its international economic policies to fighting terrorism and to Iraq. But with respect to Asia in particular, this translates into fewer sustained high-level economic-policy discussions, and none of the big trade and investment missions with America's top CEOs that characterized U.S. policies throughout the 1990s. America's advice is less eagerly sought than it once was, and, given enormous Asian financial surpluses, its money is less needed.

How can America change course? Washington would have to pursue a more robustly multilateral set of policies if it wants to ensure that Asia continues to look outward and defines its interests in global rather than regional terms. It would, for example, have to engage China in many more higher-level economic discussions, not just about the region but about the world. It would need to press for China's entry into the Group of Eight. It would have to invite China to become part of the inner management sanctum of the World Trade Organization now made up of the United States, the European Union, Canada and Japan.

Washington would also have to give the highest priority to global trade agreements, in contrast to its penchant for bilateral deals. Last week the United States made the right noises by supporting an EU proposal to eliminate all agricultural subsidies in order to rejuvenate multilateral talks. But rhetoric would have to be matched by action. In addition, top U.S. officials, lots of them, will have to spend substantial time in Asia to understand the sweeping changes that have been taking place. For Washington, with nearly all its attention focused on terrorism and Iraq, that won't be easy—nor is it likely in the foreseeable future.

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